

PFI Notice 2009-1

March 31, 2009

Effective Date

Immediately except as noted

Special Attention:

PFI MPF[®] Program Management, Origination Management and Servicing Management

Subject:

Announcing enhancements to the Origination, Underwriting and Servicing Guides affecting All MPF Products:

- Condominium Project Eligibility
- Credit Reports - Authorized Users of Credit
- Non-Arms Length Transactions for Second Homes
- New Appraisal Form - Market Conditions Addendum
- Servicing Procedures for MERS Registered Mortgages
- Project Notification Procedures for Condominium or PUD Properties

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 15	Property Insurance
Origination Guide Chapter 33	Condominiums and PUDs
Underwriting Guide Chapter 2	Mortgage Eligibility
Underwriting Guide Chapter 3	Loan Purpose
Underwriting Guide Chapter 4	Borrower Eligibility
Underwriting Guide Chapter 5	Property Valuation & Eligibility
Servicing Guide Chapter 103	General Servicing Requirements
Servicing Guide Chapter 106	Insurance

Description of Changes:

Origination and Underwriting Guide Revisions

Condominium Project Eligibility (Origination Guide Chapters 15.2.3, 33.2, 33.2.2, 33.3.1, 33.3.2.1, 33.5.1 & 33.5.8)

The MPF Program is making several changes to its condominium project standards and eligibility determination requirements. These changes are applicable to attached condominium projects only.

- **Additional Condominium Eligibility Determination Method:** We have added a method of project eligibility determination, known as Fannie Mae's Project Eligibility Review Service (PERS), to the list of existing eligibility determination methods. PERS is a new project review service from Fannie Mae that replaces the previous Fannie Mae Review process, also known as the "1028" process. Projects approved under the 1028 process will continue to be eligible until expiration of the 1028 project acceptance.
- **Limited Review Process:** We have added clarification that the limited review process is to be used on an individual loan basis where loans are originated through the ordinary course of business. However, if a PFI or originating lender targets a project with specific marketing efforts or is the named preferred lender by either the developer or the project's homeowners association, the project is ineligible for the limited review process and the PFI must use one of the other project review methods (agency approval or manual review).
- **Revision of Presale Requirements for Category II - New Condominium Projects:** At least 70% of the condominium units in a project or legal phase must be conveyed to principal residence or second home purchasers for manually reviewed condominium projects, in accordance with MPF Origination Guide Chapter 33.3.3.
- **Borrower Hazard Insurance Requirements:** Borrowers are required to obtain a "walls-in" coverage policy (commonly known as a HO-6 policy) unless it can be documented that the All Risk Coverage hazard insurance policy maintained by the homeowners association provides the same interior unit coverage. The homeowners association All Risk Coverage policy must include replacement of the improvements (or subsequent borrower/owner added improvements) coverage for the unit.

The coverage amount of the HO-6 policy must be no less than 20 percent of the condominium unit's appraised value. The maximum deductible may not exceed 5% of the face amount of the insurance policy.
- **Condominium Project Insurance Requirements:** We have added clarification that a blanket policy covering unaffiliated condominium associations or projects, as well as self-insurance, are not permitted.
- **Ineligible Condominium Projects:** New condominium projects are ineligible if the seller is offering contributions in excess of the MPF Program maximum interested party

contribution limits described in Underwriting Guide Chapter 2.21. Any contributions or concessions that are not fully disclosed on the HUD-1, payment abatements of any homeowner's association dues or certain financing terms offered by the seller such as below market interest rates or payment abatements, are considered excessive seller contributions and therefore the project would be ineligible.

- **Notification of Condemnation, Loss or change in Project Insurance Coverage:** The PFI must represent and warrant that the project's homeowners association agrees to provide the mortgagee or guarantor of the mortgage on any unit in the project, prompt notice of any change in its insurance coverage or of any condemnation or casualty loss that may have an adverse effect on the project or secured property.

Credit Reports / References - Authorized Users of Credit (Underwriting Guide Chapter 4.5.2)

An "authorized user" of a credit account is an individual, typically a family member of the credit account owner, who is permitted by the credit account owner to have access to and use a credit account. Such a practice was originally intended to legitimately assist related individuals establish a credit history and credit score, based on the payment history of the account, even though the authorized user is not the account owner.

Recently, the mortgage industry has witnessed "credit renting" or "piggybacking" schemes. Under these schemes, a person unrelated to the credit account owner pays the owner a fee to become an authorized user of the account, thus benefiting from the account owner's good credit to inflate the authorized user's credit score artificially. Such credit references are not an accurate reflection of the authorized user's credit profile.

For manually underwritten loans, credit report references that list a borrower as an "authorized user" can no longer be considered in the underwriting decision, except in the following instances:

- Another borrower in the mortgage transaction is the owner of the credit account; or
- The borrower is an authorized user where the owner of the credit account is the borrower's spouse; or
- The borrower can provide written documentation (e.g. canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

If there is written documentation of the borrower's monthly payments as an authorized user, then the payment history (particularly any late payments that are indicated) must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.

Non-Arms Length Transactions for Second Homes (Underwriting Guide Chapter 2.21, 2.22, 3.1 & 4.2.2)

Mortgages for non-arm's length transactions where the occupancy is a second home are not eligible for delivery under the MPF Program. Non-arms length transactions are purchase transactions in which the buyer of the property has a relationship or business affiliation with the seller. A business affiliation includes but is not limited to any ownership interest or employment with the builder, developer or seller of the property.

New Appraisal Form - Market Conditions Addendum (Underwriting Guide Chapter 5.1)

Effective with appraisals dated on or after May 1, 2009, a new appraisal form, the Market Conditions Addendum to the Appraisal (Form 1004MC), is required for mortgages delivered under the MPF Program. This new form will be required as an addendum to every appraisal type required according to Underwriting Guide Chapter 5.1, except where a Fannie Mae Form 2075 is allowed in accordance with Underwriting Guide Chapter 2.17.1.

Servicing Guide Revisions

Servicing Procedures for MERS Registered Mortgages (Servicing Guide Chapter 103.3.8)

We are adding guidelines to the Servicing Guide, similar to existing guidelines in the Origination Guide, to remind servicers to comply with the requirements of the Mortgage Electronic Registration System (MERS) Membership Agreement for any loan the PFI services under the MPF Program that is registered in MERS.

Servicers must also check all electronic messages from MERS. If an unidentified notice related to a mortgage the PFI services under the MPF Program is received, the PFI must take appropriate and timely action based on the notice, and advise MERS that the mortgage is serviced by the PFI.

Project Notification Procedures for Condominium or PUD Properties (Servicing Guide Chapter 106.1.3)

In accordance with Origination Guide Chapter 33.5.1 and Servicing Guide Chapter 106.1.3, the homeowners association or insurer of a project for a mortgage serviced under the MPF Program should coordinate to provide the servicer prompt notice of any change in its insurance coverage or of any condemnation or casualty loss that may have an adverse affect on the mortgaged property. Under certain circumstances, the homeowners association or insurer may not have the current servicer's contact information, especially where servicing of the mortgage has been transferred. Therefore, the servicer should have procedures in place to provide the homeowners association and the insurer, updated contact information whenever it is aware that such contact information is outdated.

Additional Revisions

PFI Notice 2009-1 incorporates the following revisions:

- **Origination Guide Chapter 2.13 - Use of Word and Design Trademarks:** We have updated our list of trademarks to include “MPF Xtra™” as a new word mark.
- **Underwriting Guide Chapter 3.3.4 - Expedited Refinance Mortgages:** We have updated the minimum documentation required list for two unit property types in order to include three and four unit property types, which were announced as eligible properties for expedited refinance transactions in PFI Notice 2008-5.
- **Underwriting Guide Chapter 5.1.7 - (Appraisal) Reconciliation Section:** We have added clarification that the licensed or certified appraiser who signs the appraisal report must also have personally inspected the mortgaged property.

Origination, Underwriting and Servicing Guide Revisions:

The following Origination, Underwriting and Servicing Guide changes can be found on the AllRegs® and eMPF® websites. Links to these sites are on fhlbmpf.com and fhlb-mpf.com or may be accessed directly at <http://www.allregs.com/fhlbmpf/>.

- Origination Guide
 - Chapter 2 - changed text is highlighted in AllRegs
 - Chapter 15 - changed text is highlighted in AllRegs
 - Chapter 33 - changed text is highlighted in AllRegs
- Underwriting Guide
 - Chapter 2 - changed text is highlighted in AllRegs
 - Chapter 3 - changed text is highlighted in AllRegs
 - Chapter 4 - changed text is highlighted in AllRegs
 - Chapter 5 - changed text is highlighted in AllRegs
- Servicing Guide
 - Chapter 103 - changed text is highlighted in AllRegs
 - Chapter 106 - changed text is highlighted in AllRegs

If you have any questions about these changes, please contact your MPF Bank Representative or call the MPF Customer Support Desk at 877-INFO-MPF (877-463-6673).